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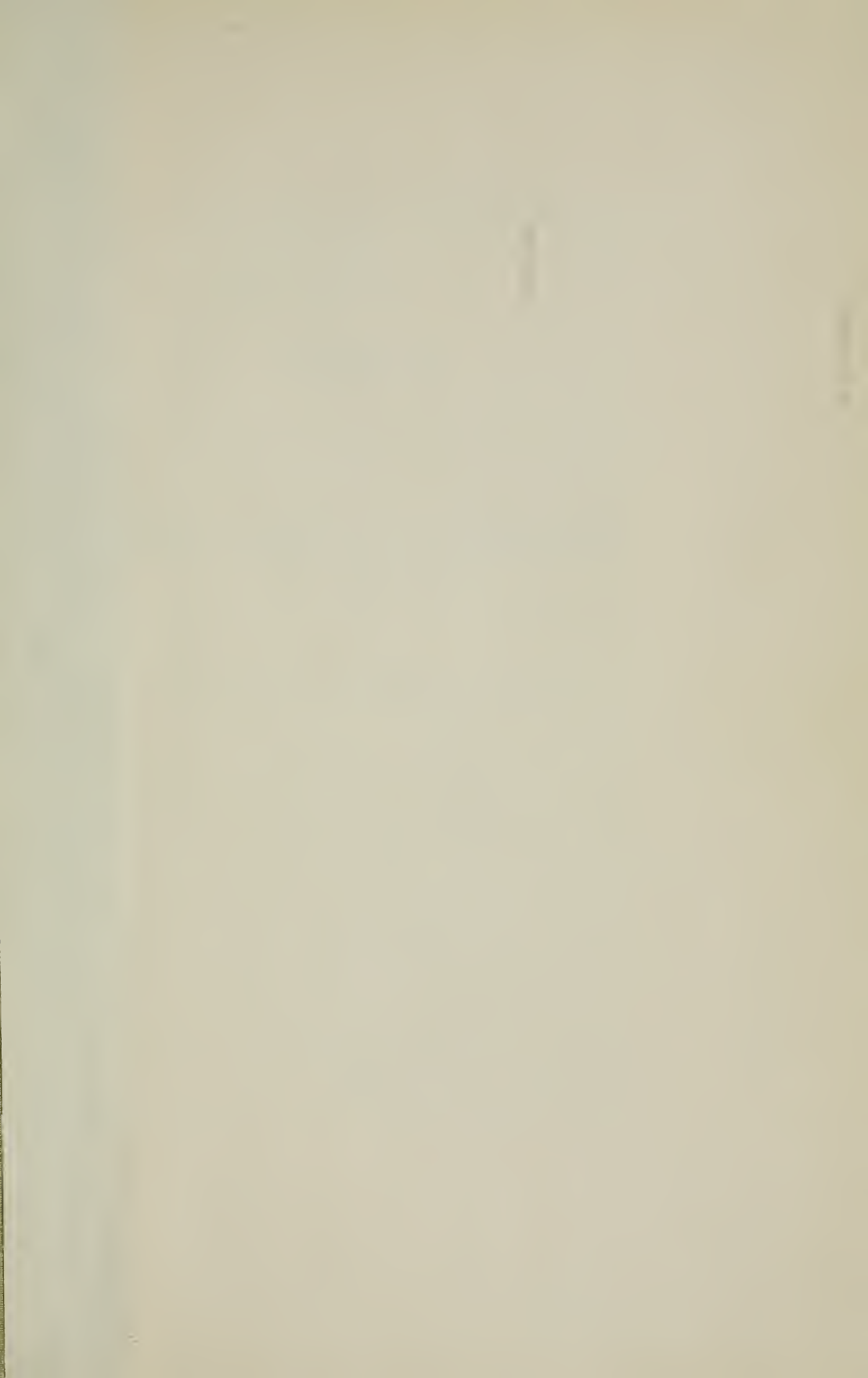


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PACIFIC RAILROAD BILL.

SPEECH

OF

HON. SAMUEL G. HILBORN,

OF CALIFORNIA,

IN THE

HOUSE OF REPRESENTATIVES,

SATURDAY, JANUARY 9, 1897.

WASHINGTON.

1897.

SPEECH
OF
HON. SAMUEL G. HILBORN.

The House being in Committee of the Whole on the state of the Union, and having under consideration the bill (H. R. 8189) to amend an act entitled "An act to aid in the construction of a railroad and telegraph line from the Missouri River to the Pacific Ocean, and to secure to the Government the use of the same for postal, military, and other purposes," approved July 1, 1862; also to amend an act approved July 2, 1864, and also an act approved May 7, 1878, both in amendment of said first-mentioned act, and other acts amendatory thereof and supplemental thereto, and to provide for the settlement of claims growing out of the issue of bonds to aid in the construction of certain railroads, and to secure the payment of all indebtedness to the United States of certain companies therein mentioned—

Mr. HILBORN said:

Mr. CHAIRMAN: This debate has now progressed for two days, and opponents of the bill have filled all the time allotted to the opposition without assistance from the members from California. We of the Pacific States congratulate ourselves that the people of the East at last realize the unworthy character of this proposed legislation. In this fact we find a hope that the hour of our deliverance is at hand. But I would be remiss in my duty as a Californian if I refrained entirely from speaking upon this bill.

There are certain local matters with which we are familiar which are unknown to you, and upon which I think you ought to be informed. I think you ought to know that in this bill the Central Pacific Railway Company does not offer or promise to give the Government a mortgage upon the real overland railroad in California, over which they have for years transacted their overland business exclusively beyond Sacramento, the capital of our State. I believe that even some members of the Committee on Pacific Railroads in this House, who reported this bill, at this moment think that this bill would give us security upon the best road these people have, the one they now use for their overland traffic. Some of this committee have been in California recently, and remember the magnificent railroad over which they traveled from Sacramento to Oakland. They remember the monstrous steam ferryboat *Salono*, which took the whole train across the Straits of Carquines. Perhaps they think this is the railroad property the Central Pacific Company offers them. If so, I must undeceive you. They do not propose to give you this short, well-ballasted road, with miles of double track. The property they propose to mortgage to you is the old Western Railroad from Sacramento to Niles, and a local road from there to Oakland. It was the first road they built and operated in that part of California, and if you visited San Francisco by rail twenty-five years ago, you traveled over this road.

But it was too expensive to run. The route was circuitous, and through the Contra Costa hills the grades were too heavy and the

curves were too short. So about sixteen years ago they built the short and direct line which I have described and have been using it exclusively ever since for the overland traffic. The old road was then abandoned for the overland traffic, and has since been operated as a local road.

Mr. DOCKERY. I understand the gentleman to say that that direct line was built by the earnings of the Central Pacific.

Mr. HILBORN. Yes, sir. It is owned by the same men, but it is not called the Central Pacific. They give it another name. I think they call the road they built from Oakland to Suisun the Northern Railway. But it is owned and run by the same people who own and run the Central and South Pacific. Charles F. Crocker is president; Lathrop, a brother-in-law of Leland Stanford, is the vice-president, and Klink, the confidential secretary of so many of their companies, is secretary of this company. There is another matter to which I desire to call the attention of the committee.

The plausible report of the Committee on the Pacific Railroads tells us of the complete railroad we are to get, extending from the Missouri River to the waters of the Pacific, but also the terminals and ferryboats, giving us a continuous railroad to San Francisco. These terminals and ferries are immensely valuable, and have an earning capacity which is enormous.

I had some suspicions that there was a doubt about the ownership of the Oakland Mole and the ferryboats, so I telegraphed to the assessor of Alameda County, asking him who owned the Oakland Mole and the ferryboats, and to whom they were assessed.

This is his answer:

OAKLAND, CAL., January 4, 1897.

Hon. S. G. HILBORN, Washington, D. C.:

Mole assessed Central Pacific. Ferryboats in ninety-five, Central Pacific. Ninety-six, Southern Pacific.

HENRY P. DALTON, Assessor.

So it appears that this magnificent ferry system, which is a necessary connection of this railroad—for you can not get into San Francisco over this road without it—belonged to the Central Pacific Company when the representatives of that company were before the committee which framed this bill, but since that time a change in the ownership has taken place. If you pass this bill, they will say that they are unable to mortgage these boats because they belong to the Southern Pacific Company.

For ways that are dark and tricks that are vain, this railroad is peculiar.

The bill under consideration is not the first one presented to the House for the settlement of the debts of the Pacific railroads, but it enjoys the unique distinction of being the worst of its kind. It deals more generously with the railroads and more harshly with the Government than any of its predecessors. It is vastly more unfavorable to the Government than the Reilly bill, which was so ignominiously defeated in this House in the Fifty-third Congress. After that rebuff it might be expected that the advocates of funding would moderate their demands rather than enlarge them.

Under the scheme proposed in the Reilly bill the railroads were to pay off the so-called first-mortgage bonds and give the Government a first lien upon the roads. Under this bill no provision is made for the payment of the first-mortgage bonds, but, on the other hand, the first lien is nearly doubled, and the Government has the

second lien to the end of the transaction. Under the scheme proposed in the Reilly bill the debt due to the Government was to bear interest at the rate of 3 per cent per annum, and the entire amount of the debt was to be paid in fifty years. Under this bill more than eighty years will elapse before the entire debt is paid, and the rate of interest provided is only 2 per cent per annum. This bill would not have received the approval of the committee which brought in the Reilly bill, for in their report they place the seal of condemnation upon one principal feature of this bill when they say:

The annual interest on these first-mortgage bonds has been a heavy drain upon the earnings of these companies; and if said first mortgage is to be continued with priority of lien, it seems to your committee that it would be futile to attempt any adjustment of the Government's indebtedness on that basis.

It appears also from the report presented by Mr. HUBBARD of the minority of the present committee that the railroads themselves have offered better terms of settlement than those contained in this bill. We learn from that report that the Union Pacific proposed to give the Government \$35,000,000 first-mortgage 4 per cent bonds out of an authorized issue of \$100,000,000, limited to an actual issue of \$87,000,000. This would give the Government thirty-five eighty-sevenths of the first lien on the main line of the Union and Kansas Pacific, including terminals, bridges, Denver extension, and Cheyenne Division. Also \$20,000,000 preferred stock out of a total authorized issue of \$75,000,000, limited in actual issue at the time to \$68,000,000, without a second mortgage, making the preferred stock equivalent to a second mortgage. This is certainly preferable to the present bill.

General Hubbard, in behalf of the Central Pacific, held out that his company would, with the aid of the sinking fund, pay the principal of the subsidy bonds as they should mature, and give a 2 per cent income bond for the unreimbursed interest, to be secured by a retention of so much of the Government compensation annually earned by the roads as shall be necessary to pay the interest. This proposition is preferable to the plan proposed in this bill.

We have great respect for the gentlemen composing the Committee on Pacific Railroads, and we can not but think that if this bill were recommitted to them they could frame one which would be more favorable to the Government, and which would be accepted by the railroads.

I admit that no bill to refund the debts of these railroads would meet with my approval which would continue the present control of the roads. The people of California are opposed to any measure that will perpetuate this monopoly.

It has stood in the way of their prosperity in the past, and they are appalled at the prospect of having its power made perpetual. They want a competing line of railroad, which this bill denies them.

I appreciate, however, that many members of the House will look upon this question without sentiment and as a cold business proposition.

It is proposed in this bill that each of these roads—the Union and the Central—shall pay into the Treasury of the United States,

in satisfaction of the principal of their debts, the sum of \$365,000 per annum for the period of ten years.

For the period of ten years following they each pay annually \$550,000, and from that time onward they are each to pay annually \$750,000 until the principal of their respective debts to the Government is extinguished. The companies are also to pay interest on the unpaid portion of their debt at the rate of 2 per cent per annum. Now, let us see whether this is an advantageous arrangement for the Government from a financial standpoint.

I have had some calculations made which show how the Government would suffer by such a settlement. The calculations have been made only as to the Central Pacific, but they illustrate how indefensible the scheme is as a business proposition.

It is proposed to loan this vast amount of money to the railroad for nearly a hundred years at 2 per cent per annum interest. This Government is a large borrower of money, for which it pays interest at the rate of $3\frac{1}{2}$ per cent per annum. Whether it borrows the identical money loaned to the railroad is immaterial. The railroad failed to pay its just debts, and the failure made a void in the Treasury of the United States which is filled by borrowing. The subsidy bonds of the United States issued for the benefit of these roads must be paid at maturity, and if the money is not in the Treasury it must be obtained by the sale of bonds bearing interest at the rate of $3\frac{1}{2}$ per cent.

The difference, therefore, between $3\frac{1}{2}$ per cent, the rate the Government is paying, and the rate of interest received from the railroads will be the measure of the Government's loss in interest. The debt of the Central Pacific Railroad, including the Western, on the 1st day of January, 1897, according to the majority report of Mr. POWERS, is \$57,681,514.29. Let us see how the contracting parties will stand at the end of the transaction. Under this bill the Central Pacific would, in eighty-five years, pay—

The principal.....	\$57,681,514.29
In interest.....	53,410,074.00
Total payments by railroad.....	111,091,588.29
Interest paid by United States in eighty-five years..	171,602,505.00
Principal unpaid	57,681,514.29
	229,284,019.29
	111,091,588.29
Loss of United States.....	118,192,431.00

1. Under this bill the Central Pacific Company would pay \$1,153,630.28 interest and \$365,000 principal the first year, or \$1,518,630.28 in all, equivalent to a total payment of 2.64 per cent on the entire debt, and \$600,222.72 less than the Government would be paying in interest alone.

2. These payments would then gradually diminish, until in the tenth year the corporation would pay \$1,087,930.29 interest and \$365,000 principal—equivalent to a total payment of \$1,452,930.29, or 2.52 per cent on the original debt, and \$565,923 less than the Government's annual interest outlay. By that time \$3,650,000 of the debt would have been "extinguished."

3. The next year the installments on the principal would be increased to \$550,000. The company would then be paying \$1,080,630.28 interest and \$550,000 principal—\$1,630,630.28 in all, or 2.83 per cent on the original debt, and \$388,223 less than the Government would be paying for interest.

4. There would be a steady diminution for ten years more, at the end of which time the Central Pacific would be paying the Government \$981,630.28 interest and \$550,000 principal, making a total of \$1,531,630.28, or 2.66 per cent on the original debt, and \$487,223 less than the Government would be paying in the same year in interest on the money it had lent the railroad.

5. This brings us down to the year 1918. By this time the Central Pacific is supposed to have extinguished \$5,500,000 more of its debt, which now stands at \$48,531,514.29.

6. We now enter upon the final period of sixty-five years, during which the debt is to be reduced at the rate of \$750,000 a year. In 1918 the company is to pay \$970,630.29 for interest and \$750,000 on the principal, or \$1,720,630.29 in all—equivalent to 2.98 per cent on the original debt. This is the largest payment the company ever makes.

7. Finally, in 1983, the account is to close. The last payment from the Central Pacific is to be \$10,630.29 interest and \$531,514 principal, in all, \$542,144.58, equivalent to 0.92 per cent on the original debt, and \$1,478,709 less than the Government's interest payments to its own creditors for the same year on the same account.

8. In the whole eighty-six years during which the Central Pacific would be "extinguishing" its debt it would fall short \$60,689,917 of meeting the Government's interest payments at $3\frac{1}{2}$ per cent. The Government would lose the entire principal of the debt in addition, making its total loss from the Central Pacific \$118,192,431, or more than twice as much as the entire present amount of the debt, principal and interest.

Statement of the practical operation of the Powers funding bill as applied to the Central Pacific Railroad Company alone.

The amount due the United States (1898).....	\$57,681,514.29
Interest paid by the United States (eighty-five years).....	171,602,505.00
	<hr/> 229,284,019.29
Principal paid by railroad (first ten years).....	\$3,650,000.00
Interest paid by railroad (first ten years).....	11,207,803.00
Principal paid by railroad (second ten years).....	5,500,000.00
Interest paid by railroad (second ten years).....	10,311,302.00
Principal paid by railroad (sixty-five years).....	48,531,514.29
Interest paid by railroad (sixty-five years).....	31,890,969.00
	<hr/> 111,091,588.29
Loss to the United States.....	<hr/> 118,192,431.00

Interest paid by the United States (eighty-five years).....	\$171,602,505.00
Interest paid by railroad.....	53,410,074.00
	<u>\$118,192,431.00</u>

Average annual payment of principal by railroad..	678,606.05
Average annual payment of interest by railroad..	631,547.22

January 1—	Amount due the United States.	Amount received by the United States.		Per cent paid by rail- road.	Loss to the United States for interest.
		Of principal.	For interest.		
1898.....	\$57,681,514.29	\$365,000.00	\$1,153,630.28	2.64	\$600,222.72
1907.....	54,396,514.29	365,000.00	1,087,930.29	2.52	565,923.00
1908.....	54,031,514.29	550,000.00	1,080,630.28	2.83	388,223.00
1917.....	49,081,514.29	550,000.00	931,630.29	2.66	457,223.00
1918.....	48,531,514.29	750,000.00	970,630.29	2.98	298,223.00
1932.....	531,514.29	531,514.29	10,630.29	.92	1,478,707.00

January 1—	Amount of principal on which interest is payable.	Amount of principal to be paid yearly.	Amount of interest pay- able yearly.
1898.....	\$57,681,514.29	\$365,000.00	\$1,153,630.28
1899.....	57,316,514.29	365,000.00	1,146,330.29
1900.....	56,951,514.29	365,000.00	1,139,030.28
1901.....	56,586,514.29	365,000.00	1,131,730.29
1902.....	56,221,514.29	365,000.00	1,124,430.28
1903.....	55,856,514.29	365,000.00	1,117,130.29
1904.....	55,491,514.29	365,000.00	1,109,830.28
1905.....	55,126,514.29	365,000.00	1,102,530.29
1906.....	54,761,514.29	365,000.00	1,095,230.28
1907.....	54,396,514.29	365,000.00	1,087,930.29
		3,650,000.00	11,207,802.85
1908.....	54,031,514.29	550,000.00	1,080,630.28
1909.....	53,451,514.29	550,000.00	1,069,630.29
1910.....	52,991,514.29	550,000.00	1,058,630.28
1911.....	52,881,514.29	550,000.00	1,047,630.29
1912.....	51,831,514.29	550,000.00	1,036,630.28
1913.....	51,281,514.29	550,000.00	1,025,630.29
1914.....	50,731,514.29	550,000.00	1,014,630.28
1915.....	50,181,514.29	550,000.00	1,003,630.29
1916.....	49,631,514.29	550,000.00	992,630.28
1917.....	49,081,514.29	550,000.00	981,630.29
		5,500,000.00	10,311,302.85
1918.....	48,531,514.29	750,000.00	970,930.29
1919.....	47,781,514.29	750,000.00	955,630.28
1920.....	47,031,514.29	750,000.00	940,630.29
1921.....	46,281,514.29	750,000.00	925,630.28
1922.....	45,531,514.29	750,000.00	910,630.29
1923.....	44,781,514.29	750,000.00	895,630.28
1924.....	44,031,514.29	750,000.00	880,630.29
1925.....	43,281,514.29	750,000.00	865,630.28
1926.....	42,531,514.29	750,000.00	850,630.29
1927.....	41,781,514.29	750,000.00	835,630.28
1928.....	41,031,514.29	750,000.00	820,630.29
1929.....	40,281,514.29	750,000.00	805,630.28
1930.....	39,531,514.29	750,000.00	790,630.29
1931.....	38,781,514.29	750,000.00	775,630.28
1932.....	38,031,514.29	750,000.00	760,630.29
1933.....	37,281,514.29	750,000.00	745,630.28
1934.....	36,531,514.29	750,000.00	730,630.29
1935.....	35,781,514.29	750,000.00	715,630.28

January 1—	Amount of principal on which interest is payable.	Amount of principal to be paid yearly.	Amount of interest payable yearly.
1936-----	\$35,031,514.29	\$750,000.00	\$700,630.29
1937-----	34,281,514.29	750,000.00	685,630.28
1938-----	33,531,514.29	750,000.00	670,630.29
1939-----	32,781,514.29	750,000.00	655,630.28
1940-----	32,031,514.29	750,000.00	640,630.29
1941-----	31,281,514.29	750,000.00	625,630.28
1942-----	30,531,514.29	750,000.00	610,630.29
1943-----	29,781,514.29	750,000.00	595,630.28
1944-----	29,031,514.29	750,000.00	580,630.29
1945-----	28,281,514.29	750,000.00	565,630.28
1946-----	27,531,514.29	750,000.00	550,630.29
1947-----	26,781,514.29	750,000.00	535,630.28
1948-----	26,031,514.29	750,000.00	520,630.29
1949-----	25,281,514.29	750,000.00	505,630.28
1950-----	24,531,514.29	750,000.00	490,630.29
1951-----	23,781,514.29	750,000.00	475,630.28
1952-----	23,031,514.29	750,000.00	460,630.29
1953-----	22,281,514.29	750,000.00	445,630.28
1954-----	21,531,514.29	750,000.00	430,630.29
1955-----	20,781,514.29	750,000.00	415,630.28
1956-----	20,031,514.29	750,000.00	400,630.29
1957-----	19,281,514.29	750,000.00	385,630.28
1958-----	18,531,514.29	750,000.00	370,630.29
1959-----	17,781,514.29	750,000.00	355,630.28
1960-----	17,031,514.29	750,000.00	340,630.29
1961-----	16,281,514.29	750,000.00	325,630.28
1962-----	15,531,514.29	750,000.00	310,630.29
1963-----	14,781,514.29	750,000.00	295,630.28
1964-----	14,031,514.29	750,000.00	280,630.29
1965-----	13,281,514.29	750,000.00	265,630.28
1966-----	12,531,514.29	750,000.00	250,630.29
1967-----	11,781,514.29	750,000.00	235,630.28
1968-----	11,031,514.29	750,000.00	220,630.29
1969-----	10,281,514.29	750,000.00	205,630.28
1970-----	9,531,514.29	750,000.00	190,630.29
1971-----	8,781,514.29	750,000.00	175,630.28
1972-----	8,031,514.29	750,000.00	160,630.29
1973-----	7,281,514.29	750,000.00	145,630.28
1974-----	6,531,514.29	750,000.00	130,630.29
1975-----	5,781,514.29	750,000.00	115,630.28
1976-----	5,031,514.29	750,000.00	100,630.29
1977-----	4,281,514.29	750,000.00	85,630.28
1978-----	3,531,514.29	750,000.00	70,630.29
1979-----	2,781,514.29	750,000.00	55,630.28
1980-----	2,031,514.29	750,000.00	40,630.29
1981-----	1,281,514.29	750,000.00	25,630.28
1982-----	531,514.29	531,514.29	10,630.29
Total-----		57,631,514.29	53,410,074.24

There is one feature of this bill to which I desire to call especial attention. The roads are to pay interest at 2 per cent and each year make a small payment upon the principal; but there is no year during the eighty-five years of the refunding period when the sum paid for interest and principal together will amount to 3 per cent of the amount of the original debt. Not one year when their cash payment will amount to decent interest on their debt. Not one year in which the Government will not be a loser by the transaction.

The railroad companies will have extinguished their debts to the Government by an annual payment of a percentage less than the current interest, while the Government at the end of the funding period will owe the full amount it has borrowed to lend to the

corporations. On its face, this is a bill to enable the railroad companies to pay their debts. At first glance the proposition that the companies shall pay 2 per cent interest for eighty-five years and clear off the principal by annual installments, beginning with \$365,000 a year and increasing to \$750,000 per year, has rather an honest look. But suppose we put the proposition in another way. Suppose we say that the railroad companies shall pay no part of the principal of the debt they owe to the Government, but if they will pay interest upon these debts at rates ranging from less than 1 per cent to 2.98 per cent per annum for eighty-five years, the debts are to be considered wiped out, and the roads are to be donated to them free from incumbrance, while the Government would still owe the principal of its debt contracted eighty-six years before, and upon which it had paid in interest more money than it had ever received. Yet that is the identical scheme contained in this bill.

The men who have wantonly and wickedly wrecked the ship now impudently importune the owners to employ them as salvors, and after the ship is saved and salvage paid they will own the ship.

The Congress of 1864 has been censured for legislation which proved to be more generous to the railroads than was necessary. That Congress loaned these roads about \$61,000,000 and permitted the roads to place another mortgage of like amount ahead of our lien. The Congress of 1897 proposes to loan these roads \$111,000,000, with a prior lien of \$107,000,000 ahead of the Government lien. In 1864 the generosity of Congress was stimulated by a strong desire to secure the construction of a railroad across the continent, which would be of incalculable advantage to the Government. Now we have several transcontinental railroads and no such inducement exists. In 1864 the character of the corporations with which we were dealing was unknown. Our experience with them since is briefly summarized in two extracts from reports to Congress.

Nearly every obligation which these corporations assumed under the laws of the United States or as common carriers has been violated. Their management has been a national disgrace.—*Pattison*.

Every precaution that Congress had taken for the proper management of these great properties had failed of its purpose.—*Wilson Committee*.

1864. Subsidy bonds, Union Pacific and Kansas Pacific.....		\$33,539,512.00
Subsidy bonds, Central Pacific.....		27,855,680.00
Total.....		61,395,192.00
First mortgage, Union Pacific and Kansas Pacific.....		33,539,512.00
First mortgage, Central Pacific.....		27,855,680.00
Total.....		61,395,192.00
1896. Bonds to United States, Union Pacific and Kansas Pacific.....		53,715,408.78
Bonds to United States, Central Pacific.....		57,681,514.29
Total.....		111,396,923.07
First mortgage, Union Pacific and Kansas Pacific.....		54,731,000.00
First mortgage, Central Pacific.....		52,801,000.00
Total.....		107,532,000.00

No officer of the United States whose duty it is to advise Congress in relation to these railroads now advises this legislation. The opinions of the President are expressed in the scathing words of the message to Congress transmitting the reports of the United States Pacific Railroad Commission. We can safely leave the settlement of this matter in his hands without further legislation, with a certainty that the interests of the Government will not suffer. A majority of the members of that Commission are now opposed to funding the debt. Mr. Anderson, who in 1887 signed the majority report, has since changed his mind. The present Government directors of the Union Pacific Railway Company unanimously recommend foreclosure and sale. The Commissioner of Railroads has ceased to recommend a funding bill. The Secretary of the Interior is opposed to this bill. Mr. Smith, the late Secretary of the Interior, appeared before the committee and in emphatic terms protested against this kind of legislation. He showed that these roads were still valuable properties; that the average annual net earnings of the Union Pacific and Central Pacific during the past ten years have been \$8,534,000; that the average annual net profits for the main lines during the past ten years would have paid 3 per cent on a bond issue equal in amount to the sum of the first-mortgage bonds, the Government bonds, and the interest due on the Government bonds, and still have left a net profit annually of \$3,089,000.

Mr. Coombs, one of the United States directors of the Union Pacific, stated to the committee that capitalists stood ready to pay \$120,000,000 or more for these roads if given an opportunity to bid; that the Government could realize \$60,000,000 or \$65,000,000 upon its debt by a sale in the open markets.

The following article, clipped from the Washington Post of December 12, 1896, discloses the plan of the Union Pacific people:

UNION PACIFIC REORGANIZATION—THE COMMITTEE PREPARING TO BID IN THE ROAD IN THE EVENT OF FORECLOSURE.

NEW YORK, December 11, 1896.

The reorganization committee of the Union Pacific Railway Company today addressed a circular to the holders of securities of the company's main-lines, inclusive of the Kansas Pacific, explaining the decision to extend to June 30, 1897, the time during which the plan and agreement may be declared operative. The committee recites the frequent efforts to secure an adjustment of the indebtedness of the company and of the Central Pacific Railroad to the United States during the session of Congress which began in December, 1895, and lasted until June, 1896. The circular says that the bill agreed upon by the Committee on Pacific Railroads of both Houses shortly before adjournment of the last session of Congress is in its main features satisfactory to the committee. It is hoped that action by Congress at the present session will be favorable, in which event the committee will promptly proceed with the reorganization upon the lines of the proposed funding bill.

Should, however, this expectation not be realized, there is a probability that the Government will proceed on existing authorization with the foreclosure of its liens. In such event the committee intends to prepare for the purchase of the property on such foreclosure, and thereupon reorganize the property. In the existing situation the committee has deemed it prudent to postpone action in declaring the plan operative until the attitude of Congress and the Executive becomes more clearly defined.

No officer of the Government advises the funding of this debt. No popular sentiment calls for this legislation, but immense petitions have been presented here against a similar bill. No State legislatures have memorialized us to pass this bill, while the legislature of my own State has sent here a strong protest against it. No political party in any State in the Union has declared in favor of a funding measure, while all of the political parties of California in convention have condemned this bill.

One of the great political parties incorporated in its national platform a declaration against this measure.

The owners of the roads alone, the men who have ruined the roads in the past, are here advocating this bill.

We hear much about the innocent stockholders of these roads, and this bill is carefully prepared to protect them and provide dividends for their stock. The great bulk of the stock of the Central Pacific is held by people who fear to avow their ownership lest they be held responsible for its debts. It is said that the managers of this company keep control of the organization by the use of proxies taken years ago from those in whose names the shares then stood. The stockholders of these corporations purchased with full knowledge of the facts. They deliberately purchased the legacy of a gigantic fraud. Shall we protect the speculator who has purchased this stock, tainted from its issue with fraud, or the farmers and producers of the West, who pay the tolls to support these roads? Their lot is already hard enough, without adding to their burdens.

The Central Pacific Railroad, one of the parties to the proposed contract, owns a road which the United States Pacific Railway Commissioners inform us actually cost \$40,000,000. We ascertain from Poor's Manual that on December 31, 1895, the liabilities of that company were \$203,543,645.79. This company has ceased to operate its own road, which is leased to the Southern Pacific for about ninety years. The Southern Pacific Company, which guarantees the payment of the obligation of the Central Pacific Company to the Government, is a Kentucky corporation with a stockholders' liability limited to \$1,000,000. The business of this corporation is to lease railroad properties and run them rather than build and own roads. These are the companies to whom the United States must look for the payment of the debt due from the Central Pacific Railroad Company.

The plain remedy for the recovery of the money due the United States from these companies, and the remedy any business man would adopt under like circumstances, is foreclosure of the mortgages and a sale of the property, and if any deficiency arises an action against the guilty directors so far as they survive, and against their representatives so far as they have left assets, for the restoration of the funds misappropriated by them. The questions involved in any settlement between the Government and the railroads are judicial questions, and should be settled by the courts, and not by Congress. The courts ought to adjudicate the question as to whether the so-called first-mortgage bonds, amounting now to over \$61,000,000 (\$61,385,000), constitute a first lien upon the properties. The law of 1864 authorized the companies to issue bonds "to an amount not exceeding the amount of the bonds of the United States, and of even tenure and date," which would be a prior lien to the lien of the United States. It is alleged that the law was not complied with in issuing these bonds, and that they are not, in fact, a first lien upon the roads. The Thurman Act distinctly challenges the priority of these so-called first-mortgage bonds in its recital that "they are, if lawfully issued and disposed of, a prior lien." But if they are not lawfully issued and disposed of, they are subordinate to the lien of the Government. The report of the Pacific Railroad Commissioners of 1887 shows that they were not disposed of at all, but were paid to themselves under the thin disguise of a construction company of which they were the sole stockholders. This question, involving more than

\$60,000,000, is certainly worthy of consideration by a court. The Union Pacific has terminals in Omaha, Kansas City, and Ogden, the value of which is estimated, in the report of the Pacific Railroad Commissioners, at \$15,300,000. The company claims that these terminals are not subject to the Government lien.

The same claim is made with respect to the Omaha bridge; a contrary opinion is held by others.

Thirty acres of land in the heart of San Francisco was donated to the Western (now the Central) Pacific, expressly for terminal purposes. If there is foreclosure, the court would undoubtedly decree that this land, worth over \$12,000,000, was appurtenant to the railroad and covered by the lien of the Government. This bill permits it to escape.

These are all questions for the courts to determine, and are not within the proper scope of Congressional action.

Millions are involved, and yet we propose to decide these matters offhand and without investigation, and decide them all against the Government and in favor of the corporations.

There is another question of great importance and requiring more careful consideration than we can give it.

The Central Pacific Railroad is a State corporation, created by the State of California and existing under its laws. In that State the life of a corporation is limited to fifty years and can not be extended. Indeed, the constitution of the State says, "The legislature shall not extend any franchise or charter nor remit the forfeiture of and franchise of any corporation which is now existing or which shall hereafter exist under the laws of this State."

The date of the incorporation of this company was June 27, 1861. In 1911 the corporation will be dead—very dead. It will be buried, and no power can resurrect it.

It will be the duty of the attorney-general of California, under the laws of that State, to institute legal proceedings for the winding up of its affairs. This bill contemplates that the Central Pacific Railroad will continue its corporate existence for eighty-six years at least, with its corporate powers unimpaired; that during that period it shall perform its duties as a common carrier, maintain and run a railroad, and every year pay interest and an installment of its debt to the Government until it is fully paid.

These transactions between the Government and these corporations have been going on for thirty years without a settlement. A vast amount of money is involved, and there should be a careful accounting. Let us know what property is subject to our lien, and what is not. Let the order and priority of the liens be ascertained. Then let the property be sold together as one line, so that there shall be one ownership and one management of the road from the Missouri River to the Pacific Ocean. Then the plan of the projectors of the scheme for a continuous highway across the continent will be realized.

Conditions should be imposed upon the purchasers that no officer or member of the purchasing company should be an officer or be interested in any competing road.

The people of the West, and especially of California, have a special objection to this bill. These roads are capitalized for more than \$170,000,000 above their actual cost, and vastly more than their present value. We object to being taxed for the next eighty years to pay interest upon this fictitious and fraudulent capitalization. These corporations have become indebted to the Government in a large amount. The scheme in this bill is to permit them

to pay their debt by levying excessive tolls upon their patrons, and their patrons are the people of the States through which the roads run. If this debt is paid, it will be paid primarily by the stockholders, but ultimately by us. An assessment district will be established comprising the country tributary to these roads, and the managers of the roads will be authorized by this bill to collect from us the money to pay the debt they owe to the whole United States. It will in effect be a mortgage upon the products and enterprise of that Western country. The Central Pacific and the Southern Pacific railroads are under the same management, so that there is no competition, and California is absolutely at the mercy of a monopoly. The same management also controls the line of steamers from New York to San Francisco, so that competition by water is denied us.

We are opposed to this bill because it fastens upon us indefinitely these conditions, which make progress impossible.

Governments must necessarily be hard creditors and unrelenting collectors. To swerve from such a policy would open the doors to a destructive favoritism. Our Government is no exception. The records of our Federal courts abound in cases maintained against delinquent debtors to the end of their lives and against the representatives of their estates long after their death. The cost often exceeds the amount recovered, but the cost is not considered in view of the higher object to be attained of proclaiming and establishing that honesty will be exacted of those who deal with this Government.

The rule prevailing in the Departments of our Government is that the Government must have its own; that neither lapse of time nor the insignificance of the debt shall exempt the delinquent.

A recent case which has come to my notice illustrates the accustomed vigilance of the Federal officers in the collection of Government moneys. In one of the counties of my district is a belt of land of inferior quality lying along the foothills. Years ago this region of country was settled upon by an industrious and frugal class of people, who paid the Government for the land and there established their homes. Their lot has been a hard one, for the sterile soil has not yielded generously, and the railroad company (which is here to-day asking our bounty) has charged them "all the traffic would bear" to transport their surplus farm products to the market.

They bought from the proprietor of a small sawmill in the neighborhood the lumber for the erection of their buildings. It was discovered years afterwards by the vigilant officers of the Government that the trees from which the lumber was made grew on Government land, and a demand was made upon these farmers for repayment. These settlers were innocent purchasers, but they had not paid the right man. I have here a letter received by one of these unfortunate people from a special agent of the Interior Department, which I will read. It is but justice to the Commissioner of the General Land Office to state that when his attention was called to the case he ordered proceedings suspended.

[Special service. Division P.]

DEPARTMENT OF THE INTERIOR, GENERAL LAND OFFICE,
Eureka, Cal., November 21, 1906.

SIR: I am in possession of testimony showing that you purchased from Hiram B. Green, of your neighborhood, 2,000 shakes, amounting in value, at the customary price in Newville, to \$18. Said shakes were unlawfully cut and removed from Government lands, and are the property of the United

States. You are therefore liable to the United States for the value at the time of purchase for said shakes.

I am authorized by the honorable Commissioner of the General Land Office to call upon you for the settlement of your liability incurred as such purchaser, and to inform you that you will be allowed to adjust the same without litigation by submitting to me at Eureka, Humboldt County, Cal., within fifteen days from the receipt of this notice, on the accompanying form, to be forwarded by me to the honorable Commissioner at Washington, D. C., a proposition to pay the United States, through the receiver of public moneys at the United States land office in San Francisco, Cal., within thirty days from the receipt of the notice of acceptance, the value in money of said shakes at the time of purchase.

Your attention is called to rule 3 of the circular printed on the accompanying form, relating to the measure of damages.

Very respectfully,

W. F. LANDERS,
Special Agent of the General Land Office.

Mr. MARK BAILEY, *Newville, Cal.*

Look on this picture, then on that!

The poor farmer, who, without fault, has become technically indebted to the United States for \$18, must respond within fifteen days or be mulcted in damages, and must pay the debt within thirty days after notice.

The railroad magnates, controlling untold millions, have the time extended for eighty-six years, within which they may pay or not, as they please. What a contrast!

If these corporations had been treated like ordinary debtors of the United States, there would now be no necessity for a funding bill. How refreshing it would be to find somewhere a letter from a Government officer to these railroad people, breathing the same sturdy determination to enforce the law which this letter discloses!

The plain, common people of the country can not understand why these people should not be compelled to pay their debts as ordinary citizens are compelled to pay theirs.

They see the law relentlessly enforced all around them against the unfortunate poor. If the poor man fails to pay the mortgage on his home, the sheriff turns him out, and the Government will not stretch out its strong arm to shield him.

Why should the great power of the Government stay the enforcement of the law as to these debtors?

There is no disguising the fact—there is abroad in this country a growing feeling that there is one law for the rich and another for the poor; that some of the departments of this Government are more vigilant in protecting and guarding the interests and supposed rights of corporations and combinations representing aggregate wealth than they are in caring for the welfare of the individual citizen.

If this bill passes, it will serve to encourage this thought among the people. In fact, it would be the most conspicuous case of class legislation that has ever appeared upon our statute books.

The friends of this bill claim that it will be a finality; that it will terminate the relations of the Government with the railroads, and get the Government out of the railroad business. I believe that it would have just the opposite and contrary effect. It would get us more deeply into the railroad business. We have now an interest, a second mortgage, on the main lines of the two roads. Pass this bill and the Government will have an interest, a second mortgage, on a lot of branch lines and feeders. Some of these lines have never paid expenses, and all are now mortgaged for their full value. It is proposed to include these mortgages on the unsubsidized roads in the blanket mortgage which the companies

are to make covering all their roads, subsidized and unsubsidized alike, which will be prior to the Government mortgage. This will increase the lien having priority to the lien of the Government by \$46,154,320. Under this bill the interest on the first mortgage on the Central would be limited to 5 per cent, and on the Union to 4 per cent. The security for these bonds would be the full value of the properties, and also the fact that the United States, having a second mortgage, would be obliged to pay the debt in order to secure itself.

In passing this bill we increase the complications of the situation by adding the unsubsidized roads and short-line feeders to our railroad holdings, which are already too great, and we also add \$46,154,320 to the debt, which is prior to the lien of the Government, increasing that prior lien to over \$107,000,000.

The dealings of these companies with the Government form a page in the history of our country so shameful that every American blushes at its mention. The scandals in Congress and out of Congress, growing out of the corrupt management of these properties, form a dark picture of our political history, and the American people wish that it could be forever turned to the wall.

But they tell us that the history of these railroad frauds is ancient history. No longer ago than 1886 three of the directors contracted with themselves to build an extension of the California and Oregon division of the Central Pacific from Delta to the boundary line of Oregon, a distance of 103 miles. In payment they issued stock to the amount of \$8,000,000 and bonds to the amount of \$4,500,000, the market value of the stocks and bonds at that time being \$8,340,000. The actual cost of construction was \$3,505,609, so they personally profited by their own votes by that single transaction to the extent of \$4,834,391.

It is true they are no longer sapping the resources of the Central Pacific through such agencies as the Contract and Finance Company, Western Development Company, or the Pacific Improvement Company. Those early methods were clumsy, and have been improved upon.

But even now they are crippling the Central Pacific road just as effectually as ever by means of a rival road which they own, and to which they divert the traffic so far as they can control it.

But even if the history is old, it is so hideous that it is still fresh in the minds of the people. The fair names of too many distinguished men have been tarnished, the reputation of the American people for honesty has suffered too much, to permit the unworthy acts of these men to be so soon forgotten and condoned.

I do not believe that the members of this House will be unmindful of the shame and mortification which such legislation as this bill proposes would bring on our country and perhaps on the Congress that enacts it.

What are the admitted facts as they will go down in history?

The United States advanced for the construction of these roads, in principal and interest which it has paid or will pay up to maturity, \$178,884,249, and donated over 26,000,000 acres of land worth \$65,073,836; in all, \$243,958,085.

These advances of money were not donations to the companies, or to the individuals controlling them, in consideration of the construction of the roads. On the other hand, the terms of the act require them to repay the Government every dollar of principal and interest.

The difficulties were not so great as were anticipated, and the sum advanced by the Government was greatly in excess of the necessities for construction. These men could have dealt honestly with the Government and still have become millionaires; but they chose the opposite course. Nearly half of the great sum placed in their hands by a confiding Government for the performance of a trust was misappropriated and diverted to their own use by the parties charged with the trust, who are now fabulously rich, while the companies in whose names they acted are left at last stripped of all means to pay, while the individual directors are millionaires.

In other words, the directors have the money and the companies owe the debts.

Congress ought not to condone such monstrous frauds, such misuse of public funds. To do so, especially after publishing to the world the particulars and proofs, as we have done, will be to say to all the world that the American Congress considers these transactions quite up to the American standard of morality in dealing with public trusts.

